HALO RESOURCES LTD.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2005 AND 2004

over 50 years of quality service

AUDITORS' REPORT

To the Shareholders of
Halo Resources Ltd.

We have audited the consolidated balance sheets of Halo Resources Ltd. as at August 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2005 and 2004 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

On December 1, 2005, we reported separately to the shareholders of Halo Resources Ltd. on consolidated financial statements as at August 31, 2005 and 2004 and for the years ended August 31, 2005 and 2004 audited in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) which include a reconciliation to United States generally accepted accounting principles.

Vancouver, B.C.
December 1, 2005

"D&H GROUP LLP"
Chartered Accountants

HALO RESOURCES LTD.
(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

AS AT AUGUST 31

	2005 $	2004 $
A S S E T S		
CURRENT ASSETS		
Cash	893,525	329,065
Amounts receivable and prepaids (Note 3)	197,507	12,610
	1,091,032	341,675
CAPITAL ASSETS (Note 4)	32,761	-
UNPROVEN MINERAL INTERESTS (Note 5)	22,759,333	75,906
DEFERRED SHARE ISSUE COSTS (Note 16 (a))	45,556	-
	23,928,682	417,581
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	584,221	62,965
REDEEMABLE PREFERRED SHARES (Note 6)	8,000,000	-
ASSET RETIREMENT OBLIGATION (Note 15)	938,500	-
FUTURE INCOME TAX LIABILITY (Notes 5(a) and 9)	5,328,000	-
	14,850,721	62,965
COMMITMENT (Note 14)		
S H A R E H O L D E R S' E Q U I T Y		
SHARE CAPITAL (Note 7)	28,487,576	20,914,102
CONTRIBUTED SURPLUS (Note 8)	738,642	179,611
SHARE SUBSCRIPTIONS RECEIVED (Note 16(a))	958,950	-
DEFICIT	(21,107,207)	(20,739,097)
	9,077,961	354,616
	23,928,682	417,581

NATURE OF OPERATIONS (Note 1)

SUBSEQUENT EVENTS (Note 16)

APPROVED BY THE BOARD

"Marc Cernovitch" , Director

"Nick DeMare" , Director

The accompanying notes are an integral part of these consolidated financial statements.

HALO RESOURCES LTD.
(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

FOR THE YEARS ENDED AUGUST 31

	2005 $	2004 $
REVENUES		
Oil and gas sales	-	81,347
Interest and other	31,331	695
	31,331	82,042
EXPENSES		
Accretion (Note 15)	38,000	-
Production	-	21,832
Depreciation, depletion and impairment	4,132	10,441
General exploration	27,002	-
General and administrative	1,060,276	183,539
Stock-based compensation	559,031	179,611
Part XII.6 tax expense (Note 9)	40,000	-
	1,728,441	395,423
LOSS BEFORE THE FOLLOWING	(1,697,110)	(313,381)
INTEREST EXPENSE	-	(29,817)
LOSS ON SALE OF PETROLEUM AND NATURAL GAS INTERESTS	-	(11,031)
GAIN ON SETTLEMENT OF ADVANCES	-	97,207
LOSS BEFORE INCOME TAXES	(1,697,110)	(257,022)
FUTURE INCOME TAX RECOVERY (Note 9)	1,329,000	-
NET LOSS FOR THE YEAR	(368,110)	(257,022)
DEFICIT - BEGINNING OF YEAR	(20,739,097)	(20,482,075)
DEFICIT - END OF YEAR	(21,107,207)	(20,739,097)
EARNING (LOSS) PER COMMON SHARE - BASIC AND DILUTED	$(0.02)	$(0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	16,049,812	5,654,354

The accompanying notes are an integral part of these consolidated financial statements.

HALO RESOURCES LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED AUGUST 31

	2005 $	2004 $
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(368,110)	(257,022)
Items not involving cash		
Accretion	38,000	-
Depreciation, depletion and impairment	4,132	10,441
Stock-based compensation	559,031	179,611
Loss on sale of petroleum and natural gas interests	-	11,031
Gain on settlement of advances	-	(97,207)
Interest expense	-	29,817
Future income tax recovery	(1,329,000)	-
Increase in amounts receivable and prepaids	(184,897)	(5,497)
Increase in accounts payable and accrued liabilities	517,089	43,919
	(763,755)	(84,907)
FINANCING ACTIVITIES		
Common shares issued for cash	6,941,897	1,377,000
Common share subscriptions received	958,950	-
Common share issue costs	(692,979)	-
Repayment of advances	-	(951,622)
	7,207,868	425,378
INVESTING ACTIVITIES		
Additions to resource interests	(5,842,760)	(99,841)
Proceeds from sale of resource interests	-	78,630
Purchase of capital assets	(36,893)	-
	(5,879,653)	(21,211)
INCREASE IN CASH	564,460	319,260
CASH - BEGINNING OF YEAR	329,065	9,805
CASH - END OF YEAR	893,525	329,065

SUPPLEMENTARY CASH FLOW INFORMATION - See Note 13.

The accompanying notes are an integral part of these consolidated financial statements.

HALO RESOURCES LTD.
(An Exploration Stage Company)

CONSOLIDATED SCHEDULE OF UNPROVEN MINERAL INTERESTS

FOR THE YEARS ENDED AUGUST 31

	2005				2004
	Duport Property $	Bachelor Lake Property $	Quarter Moon Lake Property $	Total $	Total $
BALANCE - BEGINNING OF YEAR	75,906	-	-	75,906	-
AMOUNTS INCURRED DURING THE YEAR					
EXPLORATION EXPENDITURES					
Airborne surveying	250,268	-	-	250,268	-
Assays	35,492	19,778	766	56,036	-
Camp and equipment costs	205,343	4,206	-	209,549	-
Consulting	127,925	78,129	95,146	301,200	-
Drilling	690,858	552,289	130,377	1,373,524	-
Due diligence	23,296	-	-	23,296	-
Field personnel	153,436	25,817	-	179,253	-
Field supplies	38,888	2,444	-	41,332	-
Filing	3,075	9,663	1,297	14,035	-
Geological	199,030	-	-	199,030	-
Miscellaneous	13,572	11,421	25	25,018	-
Mobilization, trucking and backhoe	88,766	-	-	88,766	-
Rent and utilities	9,350	21,319	-	30,669	-
Site preparation	-	232,706	-	232,706	-
Surveying	16,223	-	-	16,223	-
Technical report	-	10,000	-	10,000	-
Telephone	1,513	3,334	-	4,847	-
Travel	75,505	39,847	3,368	118,720	-
Reimbursement	-	1,818,123	-	1,818,123	-
	1,932,540	2,829,076	230,979	4,992,595	-
ACQUISITION COSTS AND OTHER ITEMS					
Acquisition costs	9,460,000	1,700,000	100,000	11,260,000	-
Claims staking and lease rental costs	12,458	-	-	12,458	2,325
Consulting	-	-	-	-	39,037
Legal	221,213	156,380	7,614	385,207	20,944
Others	-	-	-	-	13,600
Capitalized dividend on redeemable preferred shares	41,667	-	-	41,667	-
Future income tax adjustment	5,091,000	-	-	5,091,000	-
Asset retirement obligation	-	900,500	-	900,500	-
	14,826,338	2,756,880	107,614	17,690,832	75,906
	16,758,878	5,585,956	338,593	22,683,427	75,906
BALANCE - END OF YEAR	16,834,784	5,585,956	338,593	22,759,333	75,906

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Halo Resources Ltd. (the "Company") is a resource exploration company which was previously engaged in the acquisition, exploration and development of crude oil and natural gas interests in the United States. Effective March 1, 2004, the Company sold its remaining oil and natural gas interest. On July 5, 2004, the Company entered into an agreement to acquire an unproven mineral interest. On November 12, 2004 and February 9, 2005, the Company entered into further option agreements to acquire additional unproven mineral interests. See also Note 5.

The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these unproven mineral interests contain economically recoverable ore reserves. Consequently the Company considers itself to be an exploration stage company. The amounts shown as unproven mineral interests and deferred costs represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The underlying value of the unproven mineral interests is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest, the ability of the Company to obtain the necessary financing to complete development, and future profitable production.

See also Note 16.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements for the 2004 fiscal year include the accounts of the Company and its former wholly-owned subsidiaries, Safari Petroleum, LLC ("Safari") and TMK Oil & Gas Inc. ("TMK"). On August 31, 2004, the Company abandoned its investment in Safari, which was inactive throughout the 2004 fiscal year, and TMK, which had sold its remaining asset, and became inactive. Intercompany balances and transactions are eliminated on consolidation. The Company did not have any subsidiaries during the 2005 fiscal year.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("Canadian GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the year. Actual results may differ from those estimates.

Unproven Mineral Interests

Unproven mineral interests costs and exploration, development and field support costs directly relating to mineral interests are deferred until the interests to which they relate is placed into production, sold or abandoned. The deferred costs will be amortized over the life of the orebody following commencement of production or written off if the mineral interest is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific mineral interest are expensed as incurred.

2. ACCOUNTING POLICIES (continued)

On a periodic basis, management reviews the carrying values of deferred unproven mineral interest acquisition and exploration expenditures with a view to assessing whether there has been any impairment in value. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or interest will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or interest.

From time to time, the Company acquires or disposes of mineral interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral interest costs or recoveries when the payments are made or received.

Petroleum and Natural Gas Interests

The Company followed the full cost method of accounting for petroleum and natural gas operations. Under this method all costs related to the exploration for and development of petroleum and natural gas reserves were capitalized on a country-by-country basis. Costs included lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration and development activities and costs of drilling both productive and non-productive wells. Proceeds from the sale of properties were applied against capitalized costs, without any gain or loss being recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Depletion of exploration and development costs and depreciation of production equipment was provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves. The costs of significant unevaluated properties were excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves were converted into equivalent units based upon relative energy content.

In applying the full cost method, the Company performed a ceiling test whereby the carrying value of petroleum and natural gas properties and production equipment, net of recorded future income taxes and the accumulated provision for site restoration and abandonment costs, was compared annually to an estimate of future net cash flow from the production of proven reserves. Net cash flow was estimated using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess was charged against earnings.

Substantially all of the Company's oil and gas exploration, development and production activities were conducted jointly with others and, accordingly, these consolidated financial statements reflected the Company's proportionate interest in such activities.

Capital Assets

Capital assets are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful life of the assets, as follows:

Office furniture and equipment	20%
Computer and telephone equipment	25%
Field equipment and facility	20%

2. ACCOUNTING POLICIES (continued)

Asset Retirement Obligations

Effective September 1, 2004, the Company adopted the recommendations of the CICA Handbook Section 3110, "Asset Retirement Obligations". Under this Section, future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a liability at fair value as at the time in which they are incurred or the event occurs giving rise to such an obligation. The liability is increased (accreted) over time through periodic charges to earnings. The corresponding asset retirement cost is capitalized as part of the asset's carrying value, and is amortized over the asset's estimated useful life. The amount of the liability will be subject to re-measurement at each reporting period.

The Company, where possible, has estimated asset retirement obligations based on current best practice. These estimates are subject to change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

Impairment of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

Revenue Recognition

The Company recognized petroleum and natural gas revenues from its interests in producing wells as oil and gas was produced and sold from these wells. The Company has no gas balancing arrangements in place. Oil and gas sold was not significantly different from the Company's product entitlement.

Foreign Currency Translation

Monetary assets and liabilities are translated into Canadian dollars at the balance sheet date rate of exchange and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates except for amortization, depreciation and depletion, which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income.

Stock-Based Compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

2. ACCOUNTING POLICIES (continued)

Income Taxes

Income tax liabilities and assets are recognized for the estimated income tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

Earnings (Loss) Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

3. AMOUNTS RECEIVABLE AND PREPAIDS

	2005 $	2004 $
Commodity taxes receivable	146,162	7,927
Prepaids	25,302	-
Other	26,043	4,683
	197,507	12,610

4. CAPITAL ASSETS

	2005			2004
	Costs $	Accumulated Depreciation $	Net Book Value $	Net Book Value $
Office furniture and equipment	6,326	633	5,693	-
Computer and telephone equipment	17,727	2,215	15,512	-
Field equipment and facility	12,840	1,284	11,556	-
	36,893	4,132	32,761	-

5. UNPROVEN MINERAL INTERESTS

	2005			2004		
	Acquisition Costs $	Deferred Exploration Costs $	Total Costs $	Acquisition Costs $	Deferred Exploration Costs $	Total Costs $
Duport	14,902,244	1,932,540	16,834,784	75,906	-	75,906
Bachelor Lake	2,756,880	2,829,076	5,585,956	-	-	-
Quarter Moon Lake	107,614	230,979	338,593	-	-	-
	17,766,738	4,992,595	22,759,333	75,906	-	75,906

(a) Duport Property, Ontario

Pursuant to an agreement dated February 18, 2005, the Company acquired from The Sheridan Platinum Group Ltd. (“Sheridan”) a 100% interest in 93 mineral claims (the “Duport Property”) covering an area of approximately 5,000 hectares, located near Kenora, Ontario. The Company paid $250,000 cash and issued one million common shares, at a fair value of $1,210,000, and $8 million in redeemable preferred shares (see Note 6). The purchase of the Duport Property was conducted on a tax-free roll-over basis to Sheridan and, accordingly, $9,210,000 of costs have no tax value.

The Company has also agreed to pay a 2.5% net smelter return royalty (“NSR”) on the first 1.5 million ounces of gold produced and a 5% NSR on the excess. The Company will have the right to buy back a 1% NSR for $2.5 million cash.

The Company has also acquired, through staking, four mineral claims in the area of the Duport property, covering an area of approximately 5.5 hectares.

(b) Bachelor Lake Property, Quebec

On November 12, 2004, the Company entered into a heads of agreement with Wolfden Resources Inc. (“Wolfden”), whereby Wolfden would assign to the Company, Wolfden’s option from Metanor Resources Inc. (“Metanor”), to earn a 50% undivided interest in two mining concessions and 51 mineral claims for a total of 1,851 hectares (the “Bachelor Lake Property”), located in the La Sueur Township, Quebec. On April 15, 2005, the Company and Wolfden signed the final agreement (the “Assignment and Assumption Agreement”). Under the agreed terms, the Company acquired Wolfden's option to earn a 50% interest in the Bachelor Lake Property by paying $650,000 cash and issuing 1,400,000 common shares, at a fair value of $1,050,000. The Company was also responsible for all exploration costs incurred on the Bachelor Lake Property by Wolfden from the date of signing the heads of agreement and accordingly, reimbursed Wolfden $1,293,123 cash and issued 700,000 common shares, at a fair value of $525,000. If the Company exercises the option, and after 50,000 ounces of gold or gold equivalent have been produced from the Bachelor Lake Property, the Company shall pay to Wolfden a bonus payment of $250,000 cash and issue to Wolfden a further 250,000 common shares. The Company also agreed to pay a 0.5% royalty on the Company's share of the NSR. A director of the Company is also a director and officer of Wolfden.

5. UNPROVEN MINERAL INTERESTS (continued)

Effective May 18, 2005, the Company and Metanor entered an agreement whereby Metanor acknowledged the Assignment and Assumption Agreement and the terms of the underlying option agreement on the Bachelor Lake Property were amended. Under the amendment, the Company can exercise its option to earn the 50% interest in the Bachelor Lake Property by spending a minimum of $500,000 of exploration on the Bachelor Lake Property and paying $100,000 to Metanor. On September 21, 2005, the Company exercised its option and paid $100,000.

(c) Quarter Moon Lake Property, Manitoba

On February 9, 2005 the Company signed a letter of intent ("LOI") with Endowment Lakes (2002) Limited Partnership ("EL") regarding the option to earn up to an 80% interest in the Quarter Moon Lake Property, Manitoba. The Quarter Moon Lake Property comprises five mining claims covering a total of 1,072 hectares and is located 75 kilometres northeast of Flin Flon and 61 kilometres northwest of Snow Lake. Under the terms of the LOI, the Company has the right to acquire an initial 51% interest in the Quarter Moon Lake Property in which the Company paid $40,000 cash, issued 50,000 common shares of the Company, at a fair value of $60,000, and is required to complete a $250,000 minimum work commitment in the first year, paying a further $40,000 cash and issuing 50,000 common shares on the first anniversary, and completing a further $250,000 work commitment in the second year. The Company has the option to earn an additional 29% interest by providing notice after the initial earn-in by completing an additional $1.5 million in exploration and development over a subsequent two year period, and paying an additional $40,000 and issuing 50,000 common shares on or before the third anniversary. The Quarter Moon Lake Property will then be held 80% by the Company and 20% by EL. The Company will be responsible for advancing the property to production and will recover all costs out of production prior to sharing profits on an 80/20 basis. EL will hold a 1% NSR which can be purchased at any time for $1 million.

6. REDEEMABLE PREFERRED SHARES

The Company has issued $8 million of its series 1 redeemable preferred shares (the "Redeemable Preferred Shares") as partial consideration of its purchase of the Duport Property described in Note 5(a).

The Redeemable Preferred Shares have a term of five years with payment of cumulative cash dividends, at the following rates:

i) for each of the two years commencing November 1, 2004, an annual dividend of $50,000, payable in quarterly instalments, commencing on February 1, 2005 and ending on November 1, 2006; and

ii) for each of the three years commencing November 1, 2006, an annual dividend of 4% of the Redeemable Preferred Shares outstanding, payable in quarterly instalments, commencing on February 1, 2007 and ending on November 1, 2009.

The Company may elect to pay any of its dividends in common shares of its capital stock based on a 15 day average price prior to the date the dividend is due.

6. REDEEMABLE PREFERRED SHARES (continued)

The Redeemable Preferred Shares are non-voting, non-convertible and can be redeemed in whole or in part by the Company at any time prior to November 1, 2009, as follows:

(i) make a cash payment of $8 million plus a $400,000 bonus, together with any accrued and unpaid dividends; or

(ii) provided all dividends payable pursuant to the terms of the Redeemable Preferred Shares have been paid, the Company may return the Duport Property to Sheridan.

The Company may elect to redeem the Redeemable Preferred Shares through the issuance of common shares in its capital stock based on a 15 day average price prior to the date of redemption.

If the Redeemable Preferred Shares have not been redeemed the Company will, effective November 1, 2009, retract the Redeemable Preferred Shares in consideration of $8 million plus accrued unpaid dividends (collectively the "Retraction Amount"), payable in cash or common shares of the Company based on a 15 trading day average price prior to the date of retraction.

During the 2005 fiscal year, the Company recorded $41,667 of dividends on the Redeemable Preferred Shares, which have been capitalized as part of resource interests. As at August 31, 2005, $4,167 of accrued dividends were included as part of accounts payable and accrued liabilities.

7. SHARE CAPITAL

Authorized: unlimited common shares without par value
unlimited preferred shares

Issued common shares:	2005		2004	
	Shares	Amount $	Shares	Amount $
Balance, beginning of year	9,443,859	20,914,102	2,926,859	19,537,102
Issued during the year				
For cash				
Private placements	7,324,894	6,688,797	6,000,000	1,290,000
Exercise of warrants	1,048,500	253,100	435,000	87,000
For finder's fees	-	-	82,000	24,600
Corporate finance	40,000	34,000	-	-
For unproven mineral interests	3,150,000	2,845,000	-	-
Cancellation of escrow shares	(1,488)	-	-	-
	11,561,906	9,820,897	6,517,000	1,401,600
Less: flow-through share renunciation (Note 9)	-	(1,566,000)	-	-
share issue costs	-	(681,423)	-	(24,600)
	11,561,906	7,573,474	6,517,000	1,377,000
Balance, end of year	21,005,765	28,487,576	9,443,859	20,914,102

7. SHARE CAPITAL (continued)

(a) During the 2005 fiscal year the Company completed private placements, as follows:

i) on December 23, 2004, the Company issued 4,342,951 flow-through units at a price of $0.95 per flow-through unit and 2,673,530 non-flow-through units at a price of $0.85 per non-flow-through unit, for total gross proceeds of $6,398,304. Each flow-through unit consisted of one common share and one-half share purchase warrant with each full warrant entitling the holder to purchase one further share of the Company for a period of two years, at a price of $1.25 on or before December 23, 2005 and, thereafter, at a price of $1.50 on or before December 23, 2006. Each non flow-through unit consisted of one common share and one share purchase warrant entitling the holder to purchase one further share of the Company for a period of two years, at a price of $1.10 on or before December 23, 2005 and, thereafter, at a price of $1.35 on or before December 23, 2006. Certain directors and officers of the Company and their immediate family members have purchased 121,435 flow-through units for gross proceeds of $115,363.

The Company paid the agents a cash commission of $510,643 and issued 701,647 warrants (the "Agents' Warrants") and incurred $107,731 of costs relating to the financing. Each Agents' Warrant is exercisable to purchase one common share at a price of $1.05 on or before December 23, 2006. The Company also issued 40,000 units at a fair value of $0.85 per unit, each unit comprising of one common share and one-half share purchase warrant having the same terms as the non-flow-through units;

ii) on January 20, 2005, the Company issued 151,834 flow-through units at a price of $0.95 per flow-through unit; and 25,000 non-flow-through units at a price of $0.85 per non-flow-through unit, for total gross proceeds of $165,492. Each flow-through unit consisted of one common share and one-half share purchase warrant with each full warrant entitling the holder to purchase one further share of the Company for a period of two years, at a price of $1.25 on or before January 20, 2006 and, thereafter, at a price of $1.50 on or before January 20, 2007. Each non-flow-through unit consisted of one common share and one share purchase warrant with each full warrant entitling the holder to purchase one further share of the Company for a period of two years, at a price of $1.10 on or before January 20, 2006 and, thereafter, at a price of $1.35 on or before January 20, 2007. The Company paid a cash finder's fee of $16,549. A director of the Company purchased 5,300 flow-through units for gross proceeds of $5,305; and

iii) on February 3, 2005, the Company issued 131,579 flow-through units at a price of $0.95 per flow-through unit for total gross proceeds of $125,000. Each flow-through unit consisted of one common share and one-half share purchase warrant with each full warrant entitling the holder to purchase one further share of the Company for a period of two years, at a price of $1.25 on or before February 3, 2006 and, thereafter, at a price of $1.50 on or before February 3, 2007. The Company paid a cash finder's fee of $12,500.

See also Note 16(c).

(b) The Company has established a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSX Venture Exchange ("TSXV"). The options have a maximum term of ten years.

7. SHARE CAPITAL (continued)

During the 2005 fiscal year the Company granted 1,078,000 stock options (2004 - 810,000) to its employees, directors and consultants and recorded compensation expense of $559,031 (2004 - $179,611).

The fair value of stock options granted to employees, directors and consultants is estimated on the dates of grants using the Black-Scholes option pricing model with the following assumptions used for the grants made during the periods:

	2005	2004
Risk-free interest rate	2.28% - 2.92%	2.28% - 2.53%
Estimated volatility	52.44% - 105%	105% - 106%
Expected life	1.5 years	1.5 years
Expected dividend yield	0%	0%

The fair value per share of stock options, calculated using the Black-Scholes option pricing model, granted during the year to the Company's employees, directors and consultants was $0.43 (2004 - $0.40) per share.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

A summary of the Company's options at August 31, 2005 and 2004, and the changes for the fiscal years ending on those dates is presented below:

	2005		2004	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance, beginning of year	810,000	0.61	92,857	0.40
Granted	1,078,000	0.92	810,000	0.61
Cancelled/expired	(200,000)	0.66	(92,857)	0.40
Balance, end of year	1,688,000	0.80	810,000	0.61

The following table summarizes information about the stock options outstanding and exercisable at August 31, 2005:

Options Outstanding and Exercisable	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Expiry Date
600,000	$0.60	1.75 years	$0.60	May 31, 2007
60,000	$0.75	1.89 years	$0.75	July 22, 2007
150,000	$0.70	2.08 years	$0.70	September 27, 2007
878,000	$0.96	2.47 years	$0.96	February 17, 2008
1,688,000				

7. SHARE CAPITAL (continued)

(c) A summary of the number of common shares reserved pursuant to the Company's warrants outstanding at August 31, 2005 and 2004 and the changes for the years ending on those dates is as follows:

	2005	2004
Balance, beginning of year	5,647,000	-
Issued pursuant to private placements	5,733,359	6,000,000
Issued for finder's fee	-	82,000
Exercised	(1,048,500)	(435,000)
Balance, end of year	10,331,859	5,647,000

Common shares reserved pursuant to warrants outstanding at August 31, 2005, are as follows:

Number	Exercise Price $	Expiry Date
2,103,000	0.25	March 4, 2006
2,495,500	0.40	April 15, 2006
2,171,476	1.25 / 1.50	December 23, 2005 / December 23, 2006
2,673,530	1.10 / 1.35	December 23, 2005 / December 23, 2006
701,647	1.05	December 23, 2006
20,000	1.10 / 1.35	December 23, 2005 / December 23, 2006
75,917	1.25 / 1.50	January 20, 2006 / January 20, 2007
25,000	1.10 / 1.35	January 20, 2006 / January 20, 2007
65,789	1.25 / 1.50	February 3, 2006 / February 3, 2007
10,331,859		

(d) See also Notes 5 and 16.

8. CONTRIBUTED SURPLUS

Contributed surplus is comprised of the following:

	2005 $	2004 $
Balance, beginning of year	179,611	-
Stock-based compensation (Note 7(b))	559,031	179,611
Balance, end of year	738,642	179,611

9. INCOME TAXES

The income tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities are as follows:

	2005	2004
Future income tax assets:		
Financing costs	200,000	-
Losses available for future periods	1,129,000	-
	1,329,000	-
Future income tax liabilities:		
Difference between book value and income tax costs of unproven mineral interests	(6,657,000)	-
Net future income tax liabilities	(5,328,000)	-

As at August 31, 2005, the Company has accumulated non-capital losses of approximately $3.2 million and cumulative resource and other tax pools of approximately $4.3 million carried forward for Canadian income tax purposes and are available to reduce taxable income of future years. The non-capital losses expire commencing in 2006 through 2015. The cumulative resource and other tax pools can be carried forward indefinitely.

During the 2005 fiscal year, the Company issued a total of 4,626,364 flow-through common shares for gross proceeds of $4,395,046 (see Note 7(a)). Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The renunciation of such expenditures is accounted for as a financing cost related to the flow-through issuance and results in a reduction in share capital with a corresponding increase in the Company's future income tax liability.

The Company is permitted under Canadian income tax legislation to renounce flow-through related resource expenditures to investors in advance of the Company incurring the expenditure. In accordance with this legislation the Company has twelve months following the effective date of renunciation to incur the expenditures. The Company begins incurring interest charges for unspent funds after one month and fees for unspent funds at the end of the calendar year following the effective date of renunciation, and until such time as funds are fully expended. During the 2005 fiscal year the Company incurred a $40,000 Part XII.6 tax expense on the monthly unspent balance of flow-through funds. All of the flow-through funds were spent by May 31, 2005.

See also Note 5(a).

10. RELATED PARTY TRANSACTIONS

(a) During the 2005 fiscal year, the Company was charged $158,350 (2004 - $69,638) for management, professional, accounting and administrative services provided by companies controlled by officers of the Company. Of this amount, $50,806 was directly related to resource interests and was deferred. As at August 31, 2005, accounts payable and accrued liabilities include $24,369 due to these related parties.

10. RELATED PARTY TRANSACTIONS (continued)

(b) Other related party transactions are disclosed elsewhere in these consolidated financial statements.

These transactions were measured at the exchange amount, which was the amount of consideration established and agreed to by related parties.

11. SEGMENTED INFORMATION

During the 2004 fiscal year, the Company's principal activities were the development of petroleum properties in the United States and the acquisition of unproven mineral interests in Canada. As at August 31, 2005, the Company had only recorded deferred costs relating to its agreements on unproven mineral interests. The unproven mineral interest and the Company's corporate assets are located in Canada. Identifiable assets, revenues and net loss in each of these geographic areas are as follows:

	As at August 31, 2005		
	Identifiable Assets $	**Revenues $**	**Net Loss $**
Canada -mineral operations	22,759,333	-	-
Canada - corporate	1,169,349	31,331	(368,110)
	23,928,682	31,331	(368,110)

	As at August 31, 2004		
	Identifiable Assets $	**Revenues $**	**Net Income (Loss) $**
United States - petroleum operations	-	81,347	169,728
Canada - mineral operations	75,906	-	-
Canada - corporate	341,675	695	(426,750)
	417,581	82,042	(257,022)

12. FINANCIAL INSTRUMENTS

The fair values of financial instruments at August 31, 2005 and 2004, were estimated based on relevant market information and the nature and terms of financial instruments. Management is not aware of any factors which would significantly affect the estimated fair market amounts, however, such amounts have not been comprehensively revalued for purposes of these financial statements. Disclosure subsequent to the balance sheet dates and estimates of fair value at dates subsequent to August 31, 2005 and 2004, may differ significantly from that presented.

Fair value approximates the amounts reflected in the financial statements for cash, amounts receivable and accounts payable and accrued liabilities. It is not practicable to estimate the fair value of the Redeemable Preferred Shares.

13. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash financing activities were conducted by the Company during fiscal 2005 and 2004 as follows:

	2005 $	2004 $
Financing activities		
Issuance of common shares for corporate finance fees	34,000	-
Common share issue costs	(34,000)	(24,600)
Common shares issued for finder's fees	-	24,600
Issuance of common shares for unproven mineral interests	2,845,000	-
Issuance of Redeemable Preferred Shares for unproven mineral interests	8,000,000	-
Share capital - future income tax adjustment	(1,566,000)	-
Future tax liability	6,657,000	-
	15,936,000	-
Investing activities		
Common shares issued for unproven mineral interests	(2,845,000)	-
Redeemable Preferred Shares issued for unproven mineral interests	(8,000,000)	
Unproven mineral interests - accrued dividend	(4,167)	-
Unproven mineral interests - future income tax adjustment	(5,091,000)	-
	(15,940,167)	-
Operating activity		
Accrued dividend payable	4,167	-

Other supplementary cash flow information:

	2005 $	2004 $
Interest paid in cash	-	105,484
Income taxes paid in cash	-	-

14. COMMITMENT

The Company leases an office premise, expiring February 29, 2008. The minimum annual rental amounts to approximately $30,000.

15. ASSET RETIREMENT OBLIGATION

	2005 $	2004 $
Balance, beginning of year	-	-
Liabilities assumed on acquisition	900,500	-
Accretion expense	38,000	-
	938,500	-

The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligation is $1,018,567 which has been discounted using a credit adjusted risk free rate of 8.5%. The reclamation obligation relates to the Bachelor Lake Property. The present value of the reclamation liability may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

16. SUBSEQUENT EVENTS

(a) During September 2005, the Company completed a private placement of 3,293,070 flow-through units at a price of $0.70 per flow-through unit and 1,980,166 non-flow-through units at a price of $0.60 per non-flow-through unit, for total gross proceeds of $3,493,249. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one further share of the Company for a period of two years at a price of $0.70. The Company paid a cash finder's fee of $266,394 and 523,323 warrants having the same terms as the private placement warrants.

As at August 31, 2005, the Company had received $958,950 in common share subscriptions and incurred $45,556 of share issue costs.

(b) Subsequent to August 31, 2005, the Company granted options to its directors, employees and consultants to purchase 855,000 common shares of the Company at an exercise price of $0.75 per share, for a period of three years.

(c) On November 22, 2005, the Company listed an aggregate of 5,011,711 warrants for trading on the TSXV. These warrants were originally issued pursuant to the private placements conducted during the 2005 fiscal year, as described in Note 7(a). In addition, the expiry dates of the warrants issued in Notes 7(a)(ii) and 7(a)(iii) were modified, with expiry dates of December 23, 2005 and December 23, 2006.

(d) See Note 5(b).